

MUNICIPALITY OF EGAN
INTERNAL CONTROL REVIEW
October 21, 2019

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AUDITOR GENERAL

REPORT ON THE LIMITED STUDY OF INTERNAL CONTROL
PERFORMED IN ACCORDANCE WITH SOUTH DAKOTA CODIFIED LAW 4-11-4.1

Governing Board
Municipality of Egan
Egan, South Dakota

We have made a study of selected elements of internal control of the Municipality of Egan (Municipality) in effect at October 21, 2019. Our study was performed pursuant to South Dakota Codified Law (SDCL) 4-11-4.1 and was limited to selected accounting controls contained in the codified laws and other selected controls we felt were significant to the Municipality. Our study was not conducted in accordance with the standards established by the American Institute of Certified Public Accountants for the purpose of giving an opinion on internal control in effect at the Municipality.

The management of the Municipality is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objective of internal controls is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operations of policies and procedures may deteriorate.

Our study was more limited than would be necessary to express an opinion on internal control of the Municipality. Also, our study would not necessarily disclose all significant weaknesses in internal controls of the Municipality. Accordingly, we do not express an opinion on internal control of the Municipality in effect at October 21, 2019.

However, our study did disclose weaknesses in internal controls of the Municipality in effect at October 21, 2019 as discussed below:

- a. Personal property inventories were not filed annually on the thirty-first day of December, or within ten days thereafter as required by SDCL 5-24-1. We recommend the Municipality annually perform personal property inventories as required by SDCL 5-24-1.
- b. The Municipality established subsidiary records for utility deposits which have accumulated to approximately \$9,200 and have been accounted for partly through the General Fund and Water Fund. In addition, a Water Rural Development loan exists which requires a reserve to be established and maintained in the amount of \$6,828 and the Municipality passed a monthly increase in monthly Sewer Fund rates of \$8.00 to be accumulated for Sewer Lagoon improvements. Neither the utility deposits nor the required reserves have been established in the Municipality's General Ledger by Fund. We recommend the Municipality compute the existing cash balance of the respective reserves discussed above and segregate the cash balance reserves from the operating cash in the General Fund, Water Fund and Sewer Fund, as applicable.
- c. The Municipality did not properly maintain the following necessary records:
 1. General Ledger by Fund
 2. Utility Deposit Record
 3. Accounts receivable general ledger control

We recommend the Municipality properly establish and maintain the necessary accounting records.
- d. We noted that a municipal board member worked for several departments as a part time employee and received, in addition to board member salary, \$5,800 in 2018 and \$6,469.50 through September of 2019. The board had adopted the rates of pay for the services; however, there was no specific approval for the board member to perform the services. We recommend that the board specifically approve a board member to provide services as a part time employee and ensure that the Municipality is in compliance with SDCL 3-16-7 and SDCL 6-1-1 and 6-1-2.
- e. The vouchers did not contain a perjury statement to be signed by the claimant for personal services or travel as recommended by the Municipal Accounting Manual. In addition, there was no signature or other evidence to indicate that the finance officer had reviewed the voucher. We recommend that vouchers be properly prepared and verified as recommended by the Municipal Accounting Manual.

This report is intended solely for the use of management and the governing board and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



Martin L. Guindon, CPA
Auditor General

October 21, 2019